CIO continues to see gold and oil as effective hedges against the current macroeconomic and geopolitical backdrop. (UBS)

The importance of portfolio resilience

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State rhetoric and actions in recent days suggest governments are vying to outline their positions on the Russia-Ukraine war ahead of US President-elect Donald Trump's inauguration. Russia's President Vladimir Putin is reportedly open to discussing a Ukraine ceasefire deal with Trump.

Reuters reported that Moscow would not make major territorial concessions and insists that Kyiv abandon its ambitions to join NATO, quoting sources familiar with the Kremlin's thinking.

The news followed Ukraine's first strike within Russian territory using US-made ATACMS missiles on the 1,000th day of the war, after the Biden administration's recent decision to lift restrictions on the use of these long-range missiles. Putin later signed a decree reducing the threshold for nuclear retaliation to conventional attacks involving Western-supplied weapons, while Biden has reportedly approved providing anti-personnel land mines to Ukraine.

These news headlines underscore the complexity of the current geopolitical landscape. Any ceasefire deal in the region is likely to take time, while negotiations between Israel and Lebanon remain ongoing without concrete results.

How these conflicts will unfold when Trump returns to the White House in January remains unclear. Details of his peace plan for Russia and Ukraine are unknown, and his transactional approach to foreign policy and plans for tariffs may give rise to additional geopolitical tensions across regions.

The market impact of tariffs is different from that of war and geopolitical conflicts. Exiting markets in response to uncertainties is typically counterproductive, in our view. Yet some strategies investors can consider to help improve the resilience of portfolios to both conflict and tariffs are similar.

Hold a well-diversified portfolio. We believe that by diversifying across asset classes, regions, and sectors, investors can effectively manage short-term risks while growing long-term wealth. Diversification has been shown to help reduce portfolio volatility, ensure investors tap more sources of return, and help investors avoid behavioral bias amid uncertainty.

Consider an allocation to hedge funds. Certain hedge fund strategies are well positioned to help investors navigate geopolitical shifts, and we believe an allocation to the asset class can help insulate portfolios from potential losses for those willing and able to manage associated risks such as illiquidity.

Utilize gold and oil as portfolio hedges. We continue to see gold and oil as effective hedges against the current macroeconomic and geopolitical backdrop. We see gold reaching USD 2,900/oz by September 2025 amid lower rates, uncertainty around Trump's policy agenda, and strong purchases from global central banks. And we see Brent crude oil rising to USD 80/bbl amid supply constraints and demand growth that is likely underestimated.

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